



market monitor

Focus on electronics/ICT sector
performance and outlook

May 2014

Progress – at a price

The electronics and Information and Communication Technology (ICT) industry is defined by constant innovation. That is what its customers, both private consumers and businesses, expect – often with anticipation verging on hysteria in the build-up to the next generation of electronic device. For companies involved in electronics/ICT that expectation is both a challenge and an opportunity: a challenge because it is paramount that they always meet or exceed customer expectations, and an opportunity because – as long as they do – they can be relatively assured of a continuing revenue stream.

This edition of Market Monitor demonstrates this point. In Germany, consumer electronics can expect a boost thanks to a new generation of game consoles. France and the Netherlands are just two of our featured markets in which cloud computing is now a must for many kinds of businesses, not least because it reduces the cost of investment in office hardware. In the USA, demand for innovations such as 3D printers, smart watches, and ultra HD televisions will play a key role in the future growth of the US's ICT sector.

This constant drive for change in such a competitive industry – our reports characterise it as 'fierce' and even 'cut-throat' – comes at a price, and that price is profit margin. While Poland has earned a reputation as one of the fastest growing ICT markets in Central Europe, pressure on prices means that larger companies can survive at the expense of the smaller one. Elsewhere in Market Monitor, we look at the strengths and weaknesses of the ICT industry in India and Belgium.

France



- A modest rebound expected in 2014
- Smaller businesses remain susceptible to decreasing margins
- Insolvencies expected to level off

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months		✓			
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		

Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector		✓			

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)		✓			

Source: Atradius

The French electronics/ICT market is expected to rebound modestly in 2014, but, given that the financial situation of many smaller businesses will remain shaky with tight profit margins, our underwriting stance is still cautious.

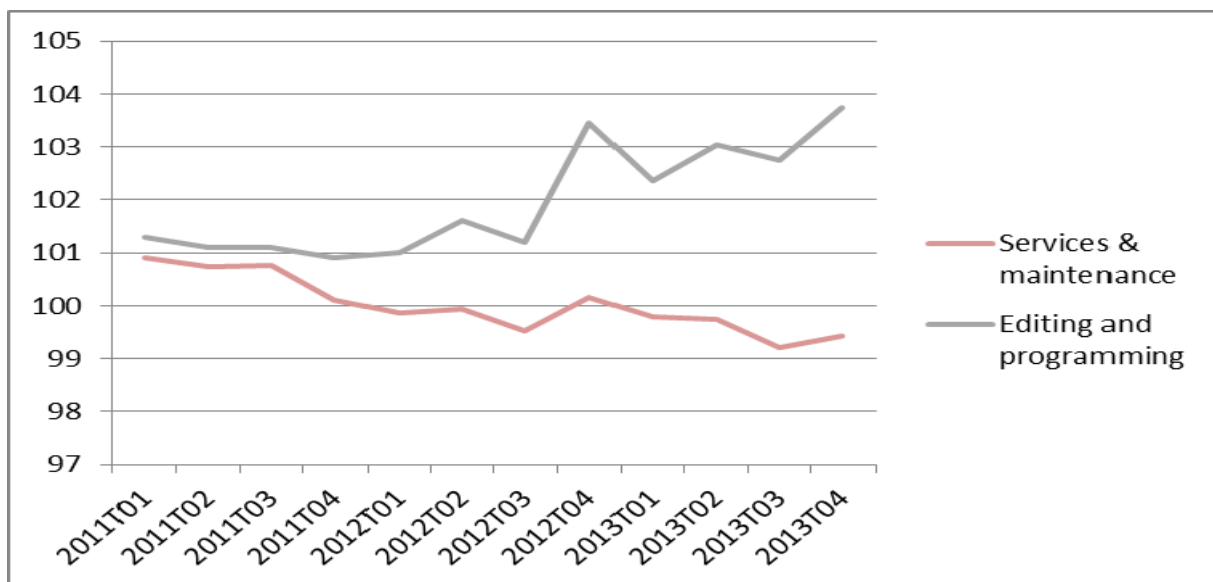
According to the market intelligence company IDC, French IT market turnover (hardware, software and services) amounted to EUR 43.5 billion in 2013: a 0.7% year-on-year decrease. French IT spending for software and services decreased 0.2% in 2013 due to continued businesses and government IT budget cuts, while increased competition among service providers put prices and margins under pressure. At the same time IT expertise remained in short supply, generating increasing labour costs for IT businesses. However, IT spending finally saw a modest rebound in Q4 of 2013, and this should continue in 2014.

In 2013, smartphone sales increased 28% in value and 3.5% in volume. As the French mobile communication market is highly competitive, operators provide large amounts of subsidies to fuel smartphone sales.

Both IT and consumer electronics companies suffer from structurally tiny margins, with equity ratios often not higher than 15%. IT service providers operate with Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) margins of only 7%, compared to 14% for software editors. Hardware wholesaling margins rarely exceed 10%.

The price index chart below shows that IT service providers are competing on low added-value activities, while programmers and editors of software have more market power and can generate higher prices.

Services Price Index in IT business, since 2011



Source: INSEE

Given the signs of a rebound recorded in Q4 of 2013, the outlook for 2014 is reasonably favourable for the whole market. Spending on IT is expected to increase due to the expansion of cloud-computing and increased mobility. Both dimensions now represent a ‘must have’ for all kinds of businesses, driving demand for servers and related consulting. Software edition and computing hardware are expected to grow around 2.5%, while Software as a Service (SaaS) is forecast to grow by more than 20% in 2014.

Additionally, telecommunication spending should continue to rise. Tablet sales are again expected to outperform PC sales in 2014. Currently 29% of French households own a tablet. In 2013, 6.2 million tablets were sold. Market research institute GFK expects 7.5 million units to be sold in 2014.

We expect payment delays to remain generally stable in the coming months, as the cash reserves of many electronics/ICT businesses are satisfactory. In addition, credit facilities will be reassessed by banks based on 2013 balance sheets. However,

there is almost no doubt that banks will continue to be restrictive in granting loans to businesses that are performing weakly.

Although the French electronics/ICT market had begun to recover at the end of 2013, in Q4 IT insolvencies continued to increase, with small and financially weak software editors the worst affected (up 13% year-on-year). In 2013 insolvencies in the electronics/ICT sector increased 2.1%, slightly below the 2.8% increase for all French business insolvencies. With the modest rebound in 2014, we expect insolvencies in the electronics/ICT sector to level off this year, in line with our forecast for overall French business insolvencies. However, despite the recovery, margins will remain tight and working capital requirements will be a key issue for many electronics/ICT businesses this year.

Despite the more optimistic outlook for electronics/ICT our underwriting stance remains cautious for the time being. We have to take into account that risks for many electronics/ICT businesses are still high, especially for very small businesses with limited equity bases which will struggle to absorb any further decline in margins. For companies with more than 20 employees the challenge will be to absorb protracted payments from their key customers.

French electronics/ICT sector

STRENGTHS	WEAKNESSES
Big-data and mobility needs generate new demand	Businesses often rely on a concentrated portfolio of suppliers and customers
High value added services support sound EBITDA levels	Market is based on a large number of small and fragile companies
Businesses have learned to manage their working capital requirements during the recent economic downturn	Lack of IT experts

Find out more about protecting your business against payment defaults by your electronics/ICT customers in France and other markets around the world [at the Atradius website](#). If you have more specific questions, please [leave a message](#) and a product specialist will call you back.

Germany



- Insolvencies decreased in 2013
- Profit margins have deteriorated
- Smaller businesses monitored more carefully

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months		✓			
Development of insolvencies over the coming 6 months			✓		

Financing conditions	very high	high	average	low	very low
Dependence on bank finance				✓	
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector		✓			

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)			✓		

Source: Atradius

The German consumer electronics/ICT market is expected to grow again in 2014, and the insolvency environment will remain benign. However, fierce competition continues to put profit margins under pressure and therefore our underwriting approach remains selective.

According to the German Federal Association for Information Technology, Telecommunications and New Media (BITKOM), overall consumer electronics/ICT sales will grow 1.7% in 2014, to EUR 153.4 billion, after a slight 0.5% drop in 2013 (see chart overleaf). All segments are expected to record increases, apart from telecommunication services (-1.3%). Businesses dealing with software and services, as well as the sales of smartphones and tablets will grow above average. After a sharp

15% decrease in 2013, consumer electronics sales are expected to increase again in 2014 due to a new generation of game consoles and this year's FIFA World Cup this year, which will reverse the recent trend of declining TV sales.

Consumer electronics/ ICT Germany	Market Volume (in billion EURO)				Growth Rates		
	2010	2011	2012	2013	11/10	12/11	13/12
Total ICT + CE	148.1	151.7	150.8	153.4	2.4	-0.5	1.7
Consumer Electronics	12.7	12.6	10.7	10.9	-0.6	-14.8	1.2
ICT	135.4	139.1	140.1	142.5	2.7	0.8	1.7
Information Technology	71.2	73.1	74.2	76.3	2.6	1.5	2.9
IT-Hardware	20.8	21.0	20.7	20.8	1.2	-1.4	0.2
Software	16.4	17.3	18.1	19.1	5.4	4.9	5.3
IT-Services	34.1	34.8	35.3	36.5	2.2	1.6	3.2
Telecommunication	64.2	66.0	65.9	66.2	2.7	-0.1	0.4
TC-Terminals	7.1	8.8	9.5	10.2	24.4	7.9	7.2
TC-Infrastructure	5.9	6.0	6.2	6.3	1.6	3.1	3.0
TC-Services	51.2	51.2	50.3	49.6	-0.1	-1.8	-1.3

Source: Bitkom, EITO, March 2014

In general, businesses in all subsectors (information technology, telecommunications and consumer electronics) have below-average equity strength. Profit margins are tight because of fierce competition, particularly on price. The general solvency and liquidity position of ICT businesses varies from tight to sufficient, with companies often using factoring as a means of financing.

On average, payments in the consumer electronics/ICT industry take between 30 and 60 days. We have seen no increase in payment delays over the past couple of months and we expect this to remain unchanged. According to Bitkom, in 2013 consumer electronics/ICT insolvencies decreased 11.2% year-on-year, after a 1.2% drop in 2012. We expect insolvencies to level off this year. Credit insurance claims have remained stable in the early months of 2014.

Consumer electronics/ICT is a very fast and innovative industry, with generally good growth prospects, but low margins, sharp price erosion and steep competition lead to an ongoing trend of consolidation. Unless they are well-established in niche products, smaller companies are - and will continue to be - the losers in this cut-throat environment.

Against this background, our underwriting approach remains necessarily selective, and we require comprehensive information on each company we underwrite. If we are to agree cover we need to have the most recently available insight into the company's performance, including:

- annual accounts
- interim accounts (not older than 3 months)
- overview of liquidity status (including bank facilities provided)
- business forecasts.

To maximise our customers' insurance cover on buyers in this sector we obtain as much information as possible (e.g. quarterly reports, liquidity budgets, personal visits). If as a result we have to restrict cover, we explain the reason fully to our customer to help them plan their future sales strategy.

Generally, we limit our cover on companies that have operated for less than one year, unless they are part of, or a spin-off, from a larger group. Retention of title is mandatory as this adds a sensible level of protection to the sale of goods. Normally we will review our credit decisions annually, with additional reviews of problematic subsectors or in cases where we see difficulties. Because of the dynamic nature of this market, we need to react immediately to negative developments in a company's creditworthiness or operating results.

German electronics/ICT sector

STRENGTHS	WEAKNESSES
Fast product innovations lead to new customer demand	High innovation pressure/high investments have to be financed
Additional services (complete packages) often lead to positive purchase decision and customer retention	The increasing interchangeability of products makes it difficult for companies to distinguish themselves from competitors
No dependency from certain customer sectors	High competition and high pressure on prices lead to low margins

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The Netherlands



- Growth in the IT services segment in 2014
- Consumer electronics sales will remain subdued
- Insolvencies expected to level off

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		

Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector			✓		

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)				✓	

Source: Atradius

In the Netherlands, businesses are increasingly leaning towards cloud computing while reducing other IT-related expenditures such as office hardware. At the same time, sales of hardware are shifting more towards smartphones and tablets. However, this is not reflected in the telecommunications sector's revenues, due mainly to the increased usage of non-voice services which do not compensate for the loss of voice revenues.

IT (hardware, services & software)

IT services market activities (infrastructure, storage and development services) remained subdued in 2013. As in previous years, investments remained low and revenues decreased in this segment. In 2014 the IT services market turnover is expected to shrink again (see chart overleaf).



Source: Nederland ICT, *ABN AMRO prognosis
Graph shows turnover growth percentages for Software and Services

In the software segment, there has been a shift towards investment in business intelligence and cloud computing. Software revenues have grown steadily by 2.0%-2.5% per year and this is expected to continue in 2014. Demand for cloud computing alone is expected to increase 20%-25% in 2014. Network equipment and data storage facilities are expected to increase 6.7% and 4.9% respectively.

Plans from Google, Microsoft and Apple to expand their data centre capacities underline that the Netherlands has become an attractive place to set up data storage centres, because of the country's advanced telecommunications infrastructure, reliable energy supply, and its strategic position and good network with the rest of the world.

The hardware market has become saturated with an emphasis on product replacement. The reduction in sales of computers and laptops is being balanced by the increase in sales of smartphones and tablets. Businesses have reduced their investment in office hardware and technologies as a cost saving measure. Bring Your Own Device (BYOD) will lead to further reduction in office hardware investment and an increase of revenues in the tablet and smartphones segment (up 17% to EUR 370 million).

Telecommunications

Dutch telecommunication providers are competing on price, packages and special deals to maintain their revenue levels and to increase market shares. However, according to Telecompaper, Dutch mobile market revenues dropped 2% to EUR 5.5 billion in 2013 and are forecast to decrease 1% in 2014, due to the continued decline in voice revenue.

We expect payment delays in the ICT segment to remain stable in the coming months, and insolvencies to level off in 2014, in line with our forecast for overall Dutch business insolvencies.

Consumer electronics/household appliances

Adaptation, innovation and growth are the key challenges for consumer electronics retailers if they are to maintain the interest of their customers and to attract them to their (online) shop.

Development of offline (physical stores) retailers of consumer electronics 2008-2012

Year	2008	2009	2010	2011	2012
Home appliances	2470	2230	2240	2030	1910

Source: Locatus/HBD

In 2013, consumer electronics recorded the largest decline in sales of the past four years (see chart below). This came as no surprise given the difficult economic environment and decreasing private consumption. Profit margins have deteriorated significantly over the last 12 months.

Consumer electronics sales 2009-2013

Year	2009	2010	2011	2012	2013
Value	-11.5	-1.0	-3.8	-1.9	-7.4
Price	-8.4	-4.6	-4.4	-3.2	-1.0
Volume	-3.4	3.7	0.7	1.3	-6.5

Source: CBS Statline

In total, Dutch consumers spent around EUR 1.5 billion on consumer electronics, with sales of televisions accounting for more than 50% of total turnover. After the hype surrounding 3D has passed, it remains to be seen if new technologies, such as Ultra HD and OLED, will boost future sales.

Household appliances (mainly washing machines, dryers and kitchens) recorded a 4% year-on-year decrease in turnover in 2013. Sales of dryers remain under pressure as consumers delay replacements. For washing machines, sales volumes remained almost unchanged due to necessary replacement. However, in this segment sales prices are under pressure. In the small household appliances segment sales decreased just 1% last year.

In 2014 consumer electronics sales volumes are expected to decrease further, by approximately 5%. Despite the expected economic rebound consumers are likely to remain cautious and their confidence shaky, leading to postponement of larger purchases. Given the difficult market conditions sales prices will remain under pressure.

We expect payment delays in the consumer electronics segment to increase in the coming months, while insolvencies are forecast to level off in 2014, in line with our forecast for the Dutch business insolvency development.

At first sight the expected economic recovery in 2014 is a positive factor for market development in IT business services. However, the segment will still face the fact that businesses increasingly tend to rely on internal resources instead of outsourcing in order to save costs. Moreover, the public sector is always looking for ways to reduce budgets and therefore it will also spend less on external (IT) resources.

The electronics/ICT sector is at the beginning of a period in which internet-based business models will play a major role in changing the business world, with innovation, best knowledge and services all key to success in a very competitive environment. To remain innovative, investing in employees' skills is more important than ever for electronics/ICT businesses, but cost saving remains essential for commercial success.

Our underwriting stance is generally open, as we assess and determine the risks on a case by case basis. Our credit insured customers and their buyers understand the value of transparency and two-way communication if we are to accurately underwrite individual risks.

Dutch electronics/ICT sector

STRENGTHS	WEAKNESSES
Cooperation (procurement, distribution and after-sales service) provide opportunities	Price competition from large (international) players
Slow economic recovery	High pressure on sales prices
Strategic position and good network with the rest of the world	

Poland



- Solid growth in the IT segment
- Generally low margins and strong competition
- Payment terms range between 14-45 days

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months				✓	

Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector			✓		

Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)			✓		

Source: Atradius

Growth prospects for the Polish electronics/ICT market are good in the medium term. However, our underwriting stance remains cautious because of fierce competition and decreasing profit margins in this sector, which mainly affect smaller businesses.

IT segment

During the past three years the Polish IT market grew on average 3% per annum, and Poland is expected to be to one of the fastest growing IT markets in Central and Eastern Europe in 2014-2018, with demand for hardware, software and services increasing as the economy grows. Additionally, the public sector provides stable demand for IT services. There is, however, a downside risk to this outlook because of the uncertain security situation in neighbouring Ukraine.

In the B2B segment difficult economic conditions in earlier years have created opportunities for IT vendors, with companies in many industries increasing their spending on IT solutions and services in order to streamline and optimise

business processes and save costs. One potential driver of IT demand will be businesses looking for cloud computing - such as Software-as-a-Service and Infrastructure-as-a-Service. Particular areas of opportunity for cloud computing include banking and retailing, as businesses in those industries look to save money on hardware investments. At the same time small and medium-sized enterprises are expected to provide particular opportunities for cloud computing services, with a higher number of computers per business stimulating demand for more sophisticated solutions and services.

Financial sector IT spending is expected to remain fairly strong despite having decreased last year as many banks have recently completed major IT projects. Investment by telecom operators will be another growth driver, due to privatisation and modernisation initiatives in this sector.

Telecommunications (hardware, infrastructure, services)

It is estimated that revenues in this segment continued to increase in 2013, largely on the back of mobile and broadband sectors, compensating for falling fixed-line voice telephony revenue. The latest operator data confirms the ongoing trend of contraction in Poland's fixed-line market, albeit at a slower pace than in previous years. Estimated total subscriptions decreased 2.3% in 2013, to 8.374 million - a penetration rate of 21.9%. In the medium-term subscriptions will continue to decrease, with fixed broadband or pay-TV offering little respite.

Poland's highly competitive mobile market offers a viable and affordable alternative to fixed voice services for a growing share of the population. It is forecast that Poland's fixed-line market will continue to shrink over the next five years following fixed-to-mobile and fixed-to-VoIP substitution. The increasing popularity of multi-play packages, including a heavily subsidised fixed-line subscription, will limit the extent of fixed-to-mobile substitution.

So far, the Polish mobile market has shown many of the characteristics observed across developed mobile markets with high penetration rates. Operators reported volatility in subscription numbers in 2012 and 2013, with some periodic subscription discounting leading to subscription losses, particularly affecting the prepaid market. We expect 3G and 4G subscriptions to continue to increase in the medium term, driven by consumer demand for smartphones. Decreasing prices for smartphones, particularly mid-level devices from Chinese manufacturers, are expected to drive this trend in the coming years.

In recent years, growth of mobile broadband subscriptions has outperformed growth of fixed broadband technologies. The latest data shows that broadband subscriptions increased 21.2% in 2012, compared to 3.5% for fixed broadband subscriptions. It is estimated that over the next five years internet usage will steadily increase as network access is expanded and services become more accessible and affordable. The growing prevalence of mobile broadband services will also fuel growth in internet usage.

Consumer electronics

The value of consumer electronics sales (computing devices, mobile handsets, video, audio and gaming products) is expected to increase 0.6% in 2014, to US\$ 9.3 billion. However, this growth will be negatively impacted by ongoing economic uncertainty and a weaker zloty. The shift of demand from desktops and notebooks to low-cost tablets causes a drag on value growth. While smartphone and tablet sales boomed in 2012 and 2013, sales growth will be slower in 2014. Sales of digital cameras, mp3 players and notebooks will again contract in 2014. While digital cameras and mp3 players sales suffer from the emergence of multi-functional devices, notebook sales are cannibalised by sales of tablets. Higher

consumer electronics spending is expected in the medium term as the economic environment is forecast to be more benign in the future. Key product categories such as tablets, hybrids, smartphones and flat-panel TV sets will benefit from the return of consumer confidence and rising incomes in the coming years.

In the electronics/ICT sector businesses' equity levels and profit margins are generally low, while price pressure is high. Therefore, only a high volume of sales helps to increase profitability, meaning that large distributors will further increase their turnover at the expense of smaller companies. For example, in the IT distribution segment the three largest players, AB SA, ABC Data SA and Action together have a market share of more than 75%. Those three big players are growing much faster than market average, taking smaller distributors' market shares, and tapping into different segments with higher margins (like toys in the case of AB SA).

With regular business relationships payment terms in the electronics/ICT sector are usually in the range of 14-45 days, with most up to 30 days. However, longer payment terms can apply to larger projects. In the IT segment only slight delays in payment are being accepted - usually up to one week - before reporting delays to collection departments. This behaviour is common even for large players. However, in engineering and construction related IT, overdue payments can reach more than 30 days and trade receivables and payables are often relatively long.

Given the strong competitive environment and low profit margin of many (smaller) businesses, our underwriting stance remains cautious, despite the overall good growth prospects for electronics/ICT. It is common in this sector for companies to have a diversified portfolio of contractors and change their suppliers very often. Our underwriting is based on businesses' 2012 and 2013 financial accounts, focusing on their turnover, solvency, gearing and turnover ratios. In the electronics/ICT sector many businesses have a low net worth, with positive working capital, while the solvency ratio rarely exceeds 25% (the situation is even more serious in case of system integrators with very high seasonality). Due to very high competition the level of profitability rarely exceeds 2%. Beside low margins, many businesses have to focus on cutting costs, while liquidity is very often strained. Financial ratios tend to vary depending on the subsector. For example, e-stores tend to have very low equity, while small integrators could show high receivables/payables due to their involvement in IT projects.

Polish electronics/ICT sector

STRENGTHS	WEAKNESSES
Stable demand from the public sector	Low margins and high competition
Established foothold in export markets	Exchange rate volatility
Financial transparency – largest IT distributors are listed in the Warsaw Stock Exchange	High seasonality of sales

USA



- Further growth in most segments
- Insolvencies expected to decrease 5% in 2014
- Retailers still face strong competitive environment

Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months		✓			

Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector		✓			
Willingness of banks to provide credit to this sector		✓			

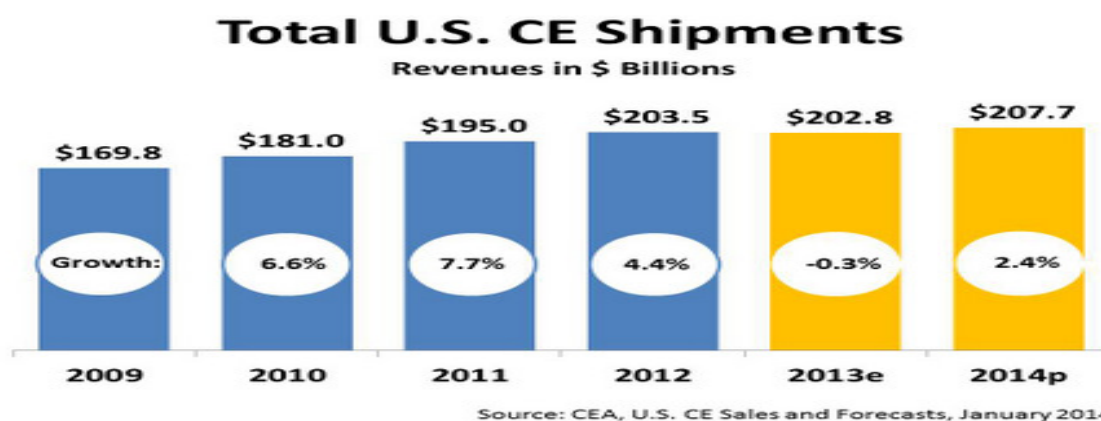
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)			✓		

Source: Atradius

While consumer electronics retailers still face challenges including increased competition and margin compression, the performance of electronics/ICT manufacturers is generally sound. Demand for smartphones and tablets continues to be strong globally with many electronics manufacturers and retailers benefiting from sales in emerging markets. Distributors who have demonstrated a clear ability to provide value added services within the supply chain have benefited from increased sales volumes. However, the low barriers to entry have led to increased competition, diminishing margins at the distributor level. Most of the industry relies heavily on bank facilities and outside financing resulting in leveraged balance sheets.

Consumer electronics

According to the Consumer Electronics Association (CEA), revenues for the US consumer electronics industry are expected to grow to US \$207.7 billion in 2014: up 2.4% year-on-year. The CEA expects significant growth in emerging product categories such as 3D printing, wearable technology (health and fitness devices/smart watches), Bluetooth technologies, Ultra HD televisions, and convertible PCs. While these categories represent a small fraction of the overall consumer electronics market, they will make a significant contribution to the total percentage growth within the industry in 2014. Manufacturers such as Apple and Samsung continue to lead the industry in both innovation and earnings.



The consumer electronics sector continues to see a product shift towards mobile devices including tablets and smartphones. This shift continues to mark a defined trend in consumer preference towards the portability of both devices and information. Innovations in Bluetooth technology and wearable technology devices continue to provide consumers with increased portability of information and a means to increase productivity.

Smartphones are still expected to be the primary revenue driver within the industry in 2014: according to CEA, unit sales of smartphones are expected to reach 152 million in 2014, up from 138 million in 2013. Total smartphone revenues are projected to reach US \$41 billion. In addition, the CEA is forecasting unit sales of tablets to grow 15% with revenues reaching US \$27.3 billion: up 3% year-on-year. Software developers have capitalised on smartphone technologies by developing inexpensive apps sold to high volumes of customers. Companies are also capitalising by offering a subscriber based model which provides continuous revenue streams. The mobile operators benefit on the back end by collecting additional fees for increased data usage.

Despite the pricing and margin pressure experienced within the flat screen television sector over the past few years, manufacturers continue to drive innovation, encouraging consumers to upgrade. With manufacturers offering larger screen sizes, improved picture quality and new display features, consumer demand has risen, increasing prices. Despite a flat projection for total unit sales, the CEA is forecasting US\$ 21.3 billion in revenues related to TV sets and display sales. Other growth categories in the consumer electronics industry include audio, automotive electronics and gaming. Within the audio category, soundbars, headphones, and wireless Bluetooth speaker solutions have driven consumer demand. With expected growth in new vehicles sales in 2014, manufacturers of automotive electronics and audio systems are likely to

benefit. As consumer demand for integrated platforms for devices continues, continued innovation in automotive electronics is anticipated.

ICT/telecommunications

Within the ICT/telecommunications segment, we continue to see consolidation efforts among the leading mobile operators, including Verizon, AT&T, Sprint and T-Mobile. Limited wireless spectrum continues to be a major concern in the ICT industry as wireless networks attempt to keep pace with demand. The US Congress has authorised the Federal Communications Commission (FCC) to hold voluntary incentive spectrum auctions. The FCC expects this type of auction to provide necessary financial support to television broadcasting companies and increased spectrum availability to mobile networks. Smaller market players, including T-Mobile, have pushed the FCC to reduce the size of geographic blocks of spectrum offered in the auctions in an effort to level the playing field.

In February 2014, the Semiconductor Industry Association (SIA), which represents US leadership in semiconductor manufacturing and design, reported worldwide semiconductor sales of US \$305.6 billion in 2013: up 4.8% from 2012. According to the SIA, the US semiconductor market grew close to three times faster than the global market. The industry represents one of America's top exporters, employing nearly a quarter of a million workers and continuing to be a job creation leader in the US economy. However, there is ongoing economic and policy uncertainty surrounding possible future trade restrictions. Continued federal government budget cuts could also impact key semiconductor research programmes at federal agencies. In addition, the significant trade in counterfeit semiconductors is a concern from the standpoints of both the economy and national security.

While we did not see significant insolvencies in the electronics and ICT sectors over the course of 2013, we closely monitor several retailers that are dependent on the industry. The industry still suffers from considerable pricing pressure from increased competition and promotional activity. But the overall insolvency trend for electronics/ICT is stable and, as such, we expect it to be in line with the general insolvency trend for US businesses, i.e. decreasing 5% year-on-year in 2014.

Payment terms still commonly range between 30 and 90 days. When payment delays occur within the electronics sector, they generally relate to disputes over product pricing or other issues, as opposed to liquidity concerns. Manufacturers often offer 'price protection' or discounts on products in order to move inventory ahead of the rapid innovation of technology experienced in the market. This can lead to disputes and ultimately an increase in non-payment until the issues can be resolved. We expect the payment trend for 2014 to be on par with that of 2013 with little change in overall payment behaviour.

Even with an improved US economy, lower fuel prices and lower unemployment rates, consumers remain somewhat cautious in their discretionary spending. This leads to tougher price competition amongst consumer electronics/ICT retailers and more promotional activity, which places pressure on margins and causes competing firms to find ways to reduce their expenses. We expect companies to continue pursuing strategic acquisitions as part of an overall growth strategy, particularly in markets where these companies are seeking to expand their presence or product offering.

Our underlying underwriting strategy will focus on favourable subsectors such as smartphones, tablets and health technology products while steering clear of unfavourable or declining subsectors like PCs and video games. When analysing buyers the level of transparency in the products and their life cycle- including any insight into buyback

arrangements for old or obsolete products - is key. With short life cycles and technology quickly becoming obsolete, it is important for us to know which end markets and subsectors are being served.

US electronics/ICT sector

STRENGTHS	WEAKNESSES
<p>Semiconductors are used in nearly all consumer electronic products, and the end users/markets are very diverse across a wide range of industries. Therefore, manufacturers are able to offset declines in one end product segment with gains in another</p>	<p>Lingering US macroeconomic factors, such as unemployment rates, stagnant wages, and fuel prices; continue to affect consumer spending and enterprise IT expenditures, putting increased pressure on both manufacturers and retailers</p>
<p>There is a great deal of product innovation in the US with wide consumer acceptance for new devices, particularly in terms of mobility</p>	<p>Highly competitive industry conditions still leading to pricing pressure and increased promotional activity</p>
<p>The recent trend toward cloud based applications and computing should lead to modest revenue growth for software companies</p>	<p>Short product lifecycles and capital intensive industry requiring heavy research and development to keep pace with the industry's technological advancements</p>

Belgium



- Sales expected to pick up again in 2014
- Games subsector still in trouble
- Insolvencies to level off in 2014

In 2013, consumer electronics/ICT sales in Belgium decreased 3% year-on-year after a 0.8% increase in 2012. In line with decreasing demand, businesses profit margins have deteriorated over the last 12 months.

While some subsectors recorded increases - telecommunications up 10.8%, small domestic electronics up 2.2% and IT up 1.8% - consumer electronics suffered a 17.4% decline, due mainly to a steep fall in sales of TVs, mobile phones, notebooks, digital cameras, music, films and games. However, bucking this trend were smartphones, media tablets and accessories for both, which recorded a sales increase of EUR 300 million to EUR 1.4 billion.

In 2014, we expect sales in the electronics/ICT sector to increase again, albeit slightly, as the Belgian economy is forecast to grow by more than 1% and consumer confidence has increased in the last 10 months. While sales of tablets increased sharply over the last three years, we expect the growth rate of this segment to decrease as the market has started to become saturated. Television sales should increase again after the slump in 2013, driven by innovation, but the games subsector is affected by the wide availability of downloads from the internet and the development of games on tablets. This trend will continue in the coming years and may pose a real threat to this subsector.

On average, payments in the consumer electronics/ICT industry take between 60 and 90 days. Despite the market deterioration in 2013 payment delays have not increased during the last couple of months and we expect payment behaviour to remain stable in 2014. Compared to other Belgian industries, the consumer electronics/ICT sector's default/insolvency rate is good and, despite a still difficult business environment, we do not expect any increase in business defaults in 2014. We expect Belgium business insolvencies (all businesses) to level off in 2014, and the electronics/ICT sector to be on par with this general trend.

Our underwriting approach remains generally open, although we are more cautious when underwriting the video games subsector. As well as seeking annual accounts and interim figures from the electronics/ICT companies whose creditworthiness we are asked to assess, we closely monitor their stock levels, trade creditors and debts, and if necessary the trading experience of our customers. If we have any doubts about the financial stability of a company that we are underwriting, and/or if we have a particularly high financial exposure on that company, a visit will be arranged to discuss their business development and obtain the most recently available financial information.

India



- **Continuing growth in all segments**
- **Currency volatility remains an issue**
- **More cautious underwriting on IT resellers**

According to Business Monitor International (BMI), Indian consumer electronics spending is estimated to grow by around 16% in 2014, to US \$43.4 billion, fuelled by rising incomes, increasing affordability, growing demand from India's underpenetrated rural areas and a rising population under 25. Key segments include low-cost mobile handsets, colour TV set-top boxes and notebook computers. BMI also maintains a positive outlook for growth in India's IT market, forecasting a 12.4% increase in total spending in 2014 and growth in the IT hardware market of 11.8%. 2014 is however expected to be a challenging year for the PC market with continuing competition from devices such as smartphones and tablets.

Nasscom (National Association of Software and Services Companies) estimates 12-14% growth for the Indian software services industry in 2014. The industry has diversified its service offering to analytics, mobility, cloud, social media and emerging verticals such as health care and medical devices, keeping pace with new technologies and delivery platforms. Businesses in this sector generally show stable credit profiles, low debt levels and cash-rich balance sheets. The depreciation of the Indian rupee in 2013 helped to improve the international competitiveness of Indian software services providers. That said, IT services providers' margins came under pressure last year due to higher wage costs. We expect profit margins to remain tight in 2014 and 2015 due to the ongoing wage inflation and expectations of a potential rupee appreciation. However, any margin erosion is expected to be partly off-set by a stable pricing environment and higher margins for consulting, and improvements in productivity. Many Indian electronics/ICT businesses are dependent on either imports or exports, and therefore currency volatility is a concern. After witnessing a steep depreciation in H1 of 2013 the Indian rupee exchange rate has stabilised since September 2013, due to improved financial markets' confidence in the central bank's monetary policy, higher foreign exchange reserves and a decreasing current account deficit. However, an unclear outcome to the current general elections, which may result in a weak and fragmented coalition government) could trigger another major depreciation round.

Despite the benign growth outlook for electronics/ICT in India we have adopted a slightly more prudent approach this year in terms of underwriting – taking into account the slowdown of Indian economic growth (to 4.6% in 2013 and forecast to grow only slightly above 5% in 2014) and decreased profit margins in the industry. Within our IT portfolio the top end buyers are national IT distributors or large software/hardware companies, which are either publicly listed or privately owned by strong groups. However, in terms of numbers, most of the buyer portfolio consists of IT resellers, and issues with liquidity and solvency typically arise with businesses in this segment. IT hardware resellers are mostly proprietorship/partnership companies working on very low margins, impacted by multiple sourcing, tougher competition and price volatility due to currency fluctuation. While financial information is readily available for incorporated companies, difficulties arise in the case of partnerships/proprietorship firms that are not obliged to file their annual accounts with the Registrar of Companies (ROC), and which are usually unwilling to share that information with third party information agencies. In such instances, apart from taking into consideration qualitative factors, we ask for our customers' assistance in obtaining relevant financial documents on their buyers.



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Crédito y Caución
Paseo de la Castellana, 4
28046 Madrid
Spain

www.creditoycaucion.es